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95-862-c
June 14, 1999



The Honorable Gary E. Walsh
Executive Director
Public Service Commission of SC
Post Office Drawer 11649
Columbia, South Carolina 29211

Re: Settlement Agreement between BellSouth and the
Consumer Advocate

Dear Mr. Walsh:

This letter is to notify the Public Service Commission of South Carolina ("Commission") of the position of BellSouth Telecommunications, Inc. ("BellSouth") regarding the Agreement with the S.C. Consumer Advocate ("Consumer Advocate") dated May 28, 1999. Certain modifications were made to the Agreement by the Commission in its agenda session on June 1.

The first modification was made to Section 1, which increased the access charge reductions from \$5.8M to \$10M. The second modification was to strike the third sentence in Section 9.

The Agreement provides that if the Commission rejects any part of the Agreement (other than certain specified changes to Section 1, which are not implicated in the changes the Commission made), the parties are allowed a specific amount of time to notify each other of an intent to declare the Agreement null and void under Section 14. In this regard, BellSouth will accept the modification ordered by the Commission to Section 9 and waive the remaining time it has to make such a decision under the terms of the Agreement. BST, however, reserves any legal rights it may have regarding the other change.

The Honorable Gary E. Walsh
June 14, 1999
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Please let me know if you need additional information.

Sincerely,

A handwritten signature in cursive script that reads "CN Watson". The letters are fluid and connected, with a large initial "C" and "N".

Caroline N. Watson

CNW/jbm

95-862-C

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

MOTION TO REVIEW AND APPROVE SETTLEMENT AGREEMENT

BellSouth Telecommunications, Inc. ("BellSouth") and the Consumer Advocate for the State of South Carolina ("Consumer Advocate") respectfully move for an Order of the Public Service Commission approving the terms and conditions of the attached Settlement Agreement. This Settlement Agreement ("Agreement") has been entered into by BellSouth and the Consumer Advocate.

BellSouth and the Consumer Advocate would submit that the resolution is in the best interests of the citizens of the State of South Carolina, in as much as it removes the uncertainty and delay associated with further litigation and resolves all outstanding legal issues with the exception of a Petition to Review Earnings of BellSouth for 1996, 1997 and 1998 filed by the Consumer Advocate on April 19, 1999 in Docket No. 1999-178-C.

Specifically, BellSouth and the Consumer Advocate have agreed to propose that the Commission use \$5,863,728, previously found by the Commission to be an appropriate prospective reduction to BellSouth's South Carolina revenues, to reduce

BellSouth's tariffed intrastate switched access Feature Group D rates ("access rates"). BellSouth and the Consumer Advocate have also agreed to propose that, if approved by the Commission, BellSouth reduce certain charges of its 1FR and other named residential services and certain charges of its 1FB and other named business services under the Terms and Conditions set forth in the attached Settlement Agreement.

If approved by the Commission, this Agreement would resolve two appeals against the Commission and BellSouth resulting from the Order on Remand in this docket (Civil Action No. 99-CP-40-1672) and an additional appeal against the Commission and BellSouth dealing with an increase in vertical services under the Consumer Price Protection Plan, (Civil Action No. 97-CP-40-2786). It also resolves all matters associated with the instant docket, including a mooted issue of whether refunds in this proceeding constitute retroactive ratemaking, by proposing additional prospective rate reductions, which if accepted by this Commission, would avoid any further discussion of refunds in this proceeding.

WHEREFORE, for the reasons set forth above, BellSouth and the Consumer Advocate respectfully request that the Commission review and approve the attached Settlement Agreement.

Respectfully submitted,

CN Watson

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SOUTH CAROLINA DEPARTMENT OF CONSUMER
AFFAIRS

May 27, 1999

STATE OF SOUTH CAROLINA)
)
COUNTY OF RICHLAND)

AGREEMENT

THIS AGREEMENT is made this 28 day of May, 1999, by and between the Consumer Advocate of the State of South Carolina ("Consumer Advocate") and BellSouth Telecommunications, Inc. ("BellSouth"), a Georgia Corporation (hereinafter sometimes collectively referred to as the "Parties.")

WHEREAS, there is presently pending before the Public Service Commission of South Carolina ("Commission") a docket arising out of the Commission's investigation of BellSouth's earnings for the calendar year 1994, Docket No. 95-862-C; and

WHEREAS there is pending in the Circuit Court for Richland County a petition for judicial review filed by the Consumer Advocate of certain price increases implemented by BellSouth pursuant to its Consumer Price Protection Plan ("Plan"), Civil Action No. 97-CP-40-2786; and

WHEREAS there is pending in the Circuit Court for Richland County a petition for judicial review, Civil Action No. 99-CP-40-1672, filed by the Consumer Advocate as a result of the Commission's decisions on rate of return on equity and cash working capital subsequent to the remand of certain issues back to the Commission by the South Carolina Supreme Court in Porter v. SC Public Service Commission and BellSouth Telecommunications, Inc., 333 S.C. 12, 507 S.E.2d 328 (1998); and

WHEREAS the Consumer Advocate and BellSouth have numerous and varied disagreements arising out of the referenced proceedings and other matters either pending before or arising out of matters before the Commission; and

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WHEREAS the Parties to this Agreement desire to settle all disputes, whether existing or potential, which have been raised between the parties before any regulatory or judicial body, save only the Consumer Advocate's petition filed on April 19, 1999 in Docket No. 1999-178-C, seeking an earnings review of BellSouth's 1996-1998 earnings in South Carolina;

NOW THEREFORE THE PARTIES HERETO do hereby covenant and agree as follows:

1. BellSouth and the Consumer Advocate agree to request that the Commission use \$5,863,728, previously found by the Commission in Docket No. 95-862-C to be an appropriate prospective reduction to BellSouth's South Carolina revenues, to reduce BellSouth's tariffed intrastate switched access Feature Group D rates ("access rates"). The parties agree and acknowledge, however, that the Commission may reduce BellSouth's rates by this amount in any manner that it deems appropriate and lawful. The Parties specifically acknowledge that the Commission may decide to use the referenced money to reduce prospectively rates other than the access rates.

2. BellSouth and the Consumer Advocate agree to request that BellSouth be allowed to reduce charges for each tariffed residential basic flat rate service ("1FR"), Residential Standard Measured Service Plan ("1MS"), Residential Low Use Measured Plan ("LUM"), and Area Plus Service without "Complete Choice", (hereinafter collectively named "1FR and other named residential services") by \$1.00 per month commencing on January 1, 2000, with the \$1.00 per month reduction remaining in effect for a minimum period of (sixty) 60 months. Additionally, the Consumer Advocate and BellSouth agree to request that BellSouth be allowed to reduce charges for each

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[Signature]

tariffed business basic flat rate service ("1FB") as well as charges for each tariffed Message Rate Service ("1MB"), and Optional Measured Service ("1MG"), (hereinafter collectively named "1FB and other named business services") by \$1.00 per month commencing on January 1, 2000, with the \$1.00 per month reduction remaining in effect for a minimum period of sixty (60) months. The Parties acknowledge that BellSouth asserts that basic flat rate residential service and certain flat rate business services are currently priced below its cost, but as consideration for this Agreement, BellSouth nevertheless agrees to implement the proposed rate reductions if approved by the Commission. This paragraph is essential to this Agreement and if the Commission rejects the proposal contained in this paragraph, this Agreement shall be null and void, in its entirety, at the election of either Party made in writing to the other Party within 30 days of the Commission's rejection.

3. The Parties agree that BellSouth will implement such rate reductions only after all appeals, if any, arising out of (1) Docket No. 95-862-C or (2) any other proceeding arising out of this Agreement or any proceeding encompassed by this Agreement, have been resolved, and the Orders issued in such matters have become final, non-appealable Orders. In the event of an appeal of any Order adopting or otherwise implementing this Agreement, Consumer Advocate agrees that he will take whatever steps are deemed necessary in order to obtain an order from the Commission or a court of competent jurisdiction necessary to implement the terms of this paragraph. The Parties agree that such action may include, but is not limited to, asking the Commission to include a

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provision providing that the terms of this agreement not be implemented while any appeal is pending, or cooperating with BellSouth in obtaining a stay or other order from the Commission or any court of competent jurisdiction to effectuate the intent of this paragraph of the Agreement. In addition, Consumer Advocate agrees to support any Commission order adopting this agreement if any appeals are taken.

4. As consideration for BellSouth's agreements contained in this Agreement, the Consumer Advocate agrees to dismiss with prejudice both his petitions for judicial review in Civil Action Nos. 97-CP-40-2786 and 99-CP-40-1672 which are currently pending in Richland County Circuit Court as denoted above, and not to appeal or otherwise challenge any other order arising out of any matter encompassed by this Agreement.

5. Upon the final non-appealable approval of this Agreement by the Commission, and the dismissal of the Consumer Advocate's petitions referenced in paragraph 4, hereof, BellSouth agrees to adjust prospectively its rates for the following services to the rates in effect on January 30, 1996:

Call Waiting, Call Forwarding-Variable and Three Way Calling, Remote Access to Call Forwarding, Repeat Dialing, Call Trace, Preferred Call Forwarding, Call Selector and Call Block, Caller ID-Basic, Customized Code Restriction, Complete Choice, Area Plus with Complete Choice; Dial Calling Card (local), Dial Calling Card (toll), Operator Station (local), Operator Station (toll), Person-to-Person (local), Person-to-Person (toll), Busy Line Verify (local), Busy Line Verify/Interrupt (local), Busy Line Verify (toll), Busy Line Verify/Interrupt (toll), Selective Class of Call Screening Per Line, and Selective Class of Call Screening Per Trunk/NAR, Exclusion of per line blocking, Access Nonrecurring charge, SyncroNet Service transmission rate, Access charge nonrecurring charge expedite, Business Toll, Access recurring rates.

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6. BellSouth further agrees that, at the same time identified in the paragraph 5 herein, that it will prospectively reduce rates for its MemoryCall service to the rates in effect: (A) on January 12, 1997, for business MemoryCall service; and (B) on March 30, 1998, for residential MemoryCall service.

7. Upon implementing the rate reductions set forth in items 5 and 6, the parties acknowledge and agree that BellSouth will have eliminated all price increases made by BellSouth while operating under the Plan.

8. The Parties specifically acknowledge that BellSouth has changed tariffs under the Plan, affecting services not listed above, that either reduced the preexisting tariffed rates (as examples, Business Plus per minute rate reductions; elimination of special number assignment request charge; residential and business three-way calling rate reduction; residential MemoryCall Answering Service Plus usage and nonrecurring charge elimination; residential and business zone mileage elimination, and business hunting rate reductions); or which simply restructured services, (as an example, rate elements of residential and business service charges restructured from a multi-element to single element rate.) As it is not BellSouth's desire to raise customer's rates through this Agreement or to disrupt the orderly flow of service to customers, the Parties mutually agree that neither party will argue to the Commission or any judicial body that any tariffs changed under the Plan need be further changed as a result of the Supreme Court's reversal of the orders approving the Plan, other than those described in paragraphs 5 and 6 above. Both

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Parties further agree that they will urge the Commission to take whatever steps may be necessary to effectuate the intent of this paragraph that those tariffs changed or implemented under the auspices of the Plan, other than the changes that increased tariffed rates noted in paragraphs 5 and 6 above, be allowed to stand intact.

9. The parties agree that each shall have the right and opportunity to review any public announcement or statement made by the other regarding the terms of this agreement. The parties agree that each will provide such review promptly, and will not unreasonably object to any such statement. BellSouth further agrees to notate on customers' bills for three months beginning in the first month of the reduction that the local service rate decrease is the result of a settlement agreement with the Consumer Advocate and approved by the Public Service Commission.

10. BellSouth agrees that it will not seek, for a period of 60 months, additional Universal Service Funding support as a result of having reduced the rates of the 1FR and other named residential services as well as 1FB and other named business services by \$1.00 per month pursuant to the terms of paragraph 2 above. Any claims that BellSouth might make for support from a Commission-approved South Carolina Universal Service Fund shall be calculated for revenue purposes as if the \$1.00 per month reductions had not been made. This Agreement, other than to the extent just provided, shall not affect the determination of the size of the fund, which will continue to be in accord with Section 58-9-280 of the SC Code of Laws and applicable federal law.

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11. The parties acknowledge and agree that this agreement is the compromise of doubtful and disputed claims and that it shall not be construed as an admission of liability on the part of any party. The parties further acknowledge and agree that this agreement does not establish any precedent with respect to the issues resolved herein, and that the parties will not hereafter in any proceeding contend that any such precedent was established.

12. Notwithstanding any provision herein to the contrary, it is expressly understood and agreed that the rate reductions BellSouth has agreed to under this agreement represent a compromise of such claims and shall not be considered a refund or credit of any specific charges paid by customers for services provided by BellSouth.

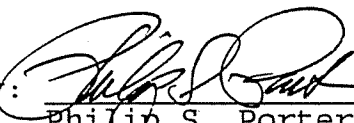
13. The Parties specifically agree that the merits, if any, of the petition filed by the Consumer Advocate on April 19, 1999, seeking a review of BellSouth's 1996-1998 earnings, are not addressed by this Agreement. However, should any regulatory or judicial body determine that any refunds or rate reductions going forward are due as a result of such petition, BellSouth shall receive a credit against any such liability equal to the net present value of 60 monthly payments of \$1.00 per month for each 1FR and other named residential services and each 1FB and other named business services in existence at the time of that decision, discounted to present value using a discount rate of 8.75%. CWN
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14. The Parties jointly request that the Commission approve this agreement in its entirety and, with the exception noted in paragraph 1, should the Commission reject any part of this Agreement, this Agreement shall be null and void, at the

option of either Party, by notifying the other Party in writing within 30 days of the Commission's rejection of any part of the Agreement. Notice should be provided to the persons signing this Agreement or to their successors. Any notification period shall run from the date the Commission's final decision is reduced to writing and served on the parties of record to this Docket. The parties acknowledge and agree that if the Commission fails to approve this agreement in its entirety, with the exception noted in paragraph 1, the parties reserve all rights to pursue all issues related to the above-referenced proceedings before the appropriate forums. This Agreement shall bind the parties, their successors, and their assigns.

WE SO AGREE:

DEPARTMENT OF CONSUMER AFFAIRS BELLSOUTH TELECOMMUNICATIONS, INC.

By: 
Philip S. Porter
Consumer Advocate

By: 
Caroline N. Watson
General Counsel

DATE: 5/28/99 DATE: 5/28/99